



Internal Revenue Service Criminal Investigation

Tax Fraud Alert

Insurance Fraud

www.irs.gov
Overview

IRS Keyword: Fraud

Fiscal Year 2004
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Criminal Investigation's (CI) Insurance Fraud Program addresses criminal tax and money laundering violations relative to insurance claims and fraud perpetrated against insurance companies. Insurance fraud is either internal or external in nature and covers a wide variety of schemes. Agent/Broker premium diversion, re-insurance fraud and rented asset schemes are just a few internal fraud schemes. Phony insurance companies, offshore/unlicensed Internet companies, staged auto accidents, viatical and senior settlement fraud are external fraud schemes.

Rented assets schemes involve companies that pay an up-front fee to borrow assets and then, sometimes without the knowledge of the real owners, list them on their balance sheet. Re-insurance is the process in which insurance companies offset all or a part of their risk through other insurance companies. Fraud in this area involves non-existent reinsurance companies or moving illegally obtained insurance premiums offshore through transactions disguised as payments to a reinsurance company. Automobile fraud rings, assisted by corrupt doctors and attorneys continue to be a major source of false insurance claims.

Viatical settlements involve the purchase of life insurance policies, or their benefits, at a discounted rate from a terminally ill person. The beneficial interests in the insurance policies purchased are sold or assigned to an investor. A viatical investor receives the full benefits when the ill person dies. Viatical fraud is a major form of insurance fraud. Investors are promised guarantees that have no basis and in some instances have no underlying insurance policy securing their investment. Fraud involving senior settlements is also becoming more prevalent. Senior settlements follow the basic premise of viatical settlements but involve senior citizen insurance policies.

Criminal Investigation is an active participant in the National Association of Insurance Commissioners (NAIC) which is comprised of state insurance commissioners and regulators, fraud bureaus, and industry specialists. The goal of this cooperative effort is to bar unscrupulous brokers and adjusters from the insurance industry. One of NAIC's benefits to law enforcement is its database of fraudulent activity within the industry. The NAIC has established a website that allows each state to post emerging schemes and significant investigations.

To effectively address international issues within the insurance industry, CI has maintained its affiliation with the International Association of Insurance Fraud Agencies. This association brings together insurance companies throughout the world. Their focus is to identify and combat fraud in the insurance industry through international cooperation.

Statistical Data

How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

Enforcement statistics on investigations initiated, prosecutions recommended, indictments, convictions and months to serve in prison.

	FY 2004	FY 2003	FY 2002
Criminal Investigations Initiated	25	21	16
Prosecution Recommendations	12	17	29
Indictments/Informations	9	19	23
Sentenced	15	24	31
Incarceration * Rate	73.3%	83.3%	87.1%
Average Months to Serve	22	31	18

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Examples of Insurance Fraud Investigations

The following examples of fraud investigations are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

Insurance Agent Role in Fraud Scheme Nets 55 Months in Prison

On April 27, 2004, in Jackson, TN, Raymond C. Marcum, President of Marcum Insurance Agency, Inc., was sentenced to 55 months in prison, followed by 3 years of supervised release. Marcum was also ordered to pay restitution of \$731,825.74 to various government and public service entities, all former clients of his insurance agency. According to the indictment, between 1985 and around August 17, 2000, Marcum conspired with an employee of his agency, Shirley Ann Huckaby, to fraudulently obtain monies from the City of Lexington, Tennessee, Lexington Electric System, Henderson County, Tennessee, Henderson county Rescue Squad and the Town of Sardis, Tennessee, to which he was not entitled. Marcum admitted during his plea hearing that he falsely and fraudulently altered and prepared insurance documents, inflated invoice amounts, kept dividend credits, and double-billed the Henderson County Rescue Squad.

Mona Kim Sentenced To 80 Months In Federal Prison

On March 24, 2004, in New Haven, CT, Mona Kim, an associate of Martin Frankel, was sentenced to 80 months in prison, followed by three years of supervised release, for her role in a \$200 million fraud against several insurance companies. On January 30, 2003, Kim was convicted by a jury on seven counts, including participating in a racketeering enterprise, racketeering conspiracy, money laundering and wire fraud. Kim was also ordered to pay restitution in the amount of \$50,075,000, at a rate of \$200 per month. Kim and Frankel fled from Greenwich, Connecticut, to Italy in 1999 following the collapse of Frankel's massive fraud scheme. During the January 2003 trial, several dozen witnesses and hundreds of exhibits chronicled the Frankel fraud enterprise and Kim's role as an office manager and in assisting Frankel flee the country to escape insurance regulators and law enforcement. Martin Frankel has been detained since his arrest and awaits sentencing.

For more summaries, visit www.irs.gov and enter Keyword: Fraud.

Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.

